

Innovation for Job Creation: The Role of Innovative Financing to Address Youth Unemployment
in the MENA Region

Major Research Paper Submission

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Abstract

This paper explores the use of innovative financing to combat high youth unemployment in the MENA region. By doing so, it paints a clearer picture of innovative financing's connection to financial inclusion and entrepreneurship, its potential impact on youth employment, as well as what needs to be done for these possibilities to be realized. To answer the questions at hand, I evaluate the literature on youth unemployment in MENA and innovative financing. The paper finds that innovative finance mechanisms are under-utilized in MENA, but that the conditions exist for it to be viable. Its use can provide improved access to finance for youth, which is a key entry point for improving entrepreneurship linked to increased youth employment. Still, further studies are needed to assess innovative finance's impact on positive employment outcomes for youth. The value of this paper is its contribution to the relatively new arena of innovative finance's application to youth unemployment. If countries are to increasingly rely on new forms of financing to achieve SDG 8—to substantially reduce the proportion of youth not in employment, education or training by 2020—this is an important link that needs to be better understood.

1. Introduction

The 2030 Agenda for Sustainable Development lays out a comprehensive set of objectives called the Sustainable Development Goals (SDGs) that put inclusion at their core. Its pledge is to ensure that “no one is left behind,” making the principles of empowerment and non-discrimination key in the mission to create a better world (United Nations, n.d.). One key population that has long been “left behind” are youth. When it comes to work, young people have faced high unemployment for decades; the disparity between unemployment rates for youth (aged 15-24 according to the ILO) and non-youth have consistently been large. Despite efforts by numerous actors to alleviate the issue, progress has been slow in most parts of the world. Levels of youth unemployment in regions have either remained stable, or are projected to increase in the coming years.

Historically, this issue has been most prominent in the Middle East and North Africa (MENA) region, with figures showing the youth unemployment rate at a startling 30 percent in Arab States, and 29 percent in Northern Africa (ILO, 2017). For comparison, the global average in 2016 was just 13 percent. Changing demographics over the next decade are expected to intensify pressure on policymakers to help the swelling cohort of unemployed youth in MENA countries. The number of young job seekers entering the labour force is and will continue to significantly outpace the number of jobs available—unless vital structural reforms are made. Youth employment is not only key for future economic growth and associated living standards in the MENA region, but is crucial for combating issues of social cohesion such as violent extremism amongst youth (Avina & Russell, 2016). As we've seen, youth discontent has culminated in national revolutions, and at the same time has been harnessed by extremist groups

for recruitment. It is clear that the consequences of youth unemployment can be grave and far-reaching, which is why the issue is at the forefront of MENA governments' agendas.

As discussed, there have been attempts over the last two decades to address youth unemployment and the various dimensions surrounding it. Governments, particularly in MENA, have invested heavily in education in hopes of equipping youth with the skills and knowledge needed for jobs. New national employment strategies have recently been developed giving hope for more inclusive growth and job creation in the region; however, similar interventions in the past have proven to be counterproductive. In many cases, it is still too early to tell the impacts of these policies, but it is apparent that sufficiently comprehensive strategies are not being deployed.

A key requirement for the success of the 2030 Agenda and the SDGs is the integration of innovative practices in all aspects. The belief is that conventional approaches will not be able to solve the monumental problems the world faces more effectively or more efficiently (United Nations, n.d.). Rather, a rethinking of development strategy formulation and implementation is needed. One of the areas of innovation being heavily promoted is in financing. Social impact is known to come at a cost, and addressing high unemployment for youth is no different. Innovative methods of finance for development, commonly referred to as "innovative finance," refers generally to any financing approach that amasses resources in non-conventional ways, then directed towards making a positive social impact. Although it has a long history, new methods under the innovative finance umbrella are constantly being developed, and have the potential to create new avenues of opportunity to foot the bill of the SDGs.

Thus far, studies on the use of innovative financing instruments for youth unemployment have been limited. While innovative financing methods are beginning to gain traction in other

sectors such as health and the environment, its use to target youth employment is a relatively undeveloped topic that requires further exploration, especially for MENA.

This paper will attempt to fill this knowledge gap by investigating the role innovative financing instruments can play in alleviating youth unemployment in the MENA region. Its thesis is that despite the limited knowledge on the linkages between innovative financing instruments and positive youth employment outcomes, there is enough evidence of success in other sectors to suggest that it *can* be a means to improve youth unemployment in MENA. That is, if the tools are properly used to facilitate increased access to financial services and skills training for youth in conjunction with other crucial business climate reforms. Sections 2 and 3 will delve deeper into implications, features, and causes of youth unemployment in general and in the MENA region. Section 4 reviews the interventions being implemented as part of MENA countries' national growth strategies as well as the context of the SDGs and innovation. Section 5 goes over innovative finance's role and context in MENA as related to youth employment before summarizing key lessons learned in Section 6. Section 7 concludes.

2. Youth Employment

2.1 Definitions

This paper uses the UN definition of “youth,” which in the context of employment, includes those between 15 and 24 years old (United Nations, 2004). The reason for its use is that the majority of data and publications referenced here also use this age range. Some studies do however, expand the upper bound of this age range from 24 to 29 years old, due to extended waiting/transition times between school and work increasingly seen in many countries.

Youth employment is defined as including both formal and informal jobs, as the informal sector comprises a significant portion of employment in the MENA region. Therefore, an accurate account of youth employment in the region requires the inclusion of both forms of work. For unemployment, the standard definition is used, which is an extended period without a job despite actively searching for one.

MENA has no standardized definition; various organizations define the region as consisting of different territories. Because much of the data used in this paper comes from the World Bank and International Labour Organization (ILO), for the most part, it follows the definition of these organizations. Unless otherwise noted, the list of countries included when MENA is referred to are: Algeria, Bahrain, Djibouti, Egypt, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Libya, Malta, Morocco, Oman, Qatar, Saudi Arabia, Syria, Tunisia, the United Arab Emirates, West Bank and Gaza, and Yemen (World Bank, n.d.).

2.2 Youth Employment Trends

It's hard being young and finding meaningful employment in today's global economy. At 1.2 billion, the number of youth aged 15 to 24 in the world is at its highest level in history, and is projected to grow to 1.4 billion by 2050. At the same time, youth unemployment is not trending in the right direction, with youth being up to four times more likely to be unemployed than adults (S4YE, 2015). Labour force participation rates for youth are also decreasing as higher numbers of youth turn to education as a remedy for their limited job prospects. The proportion of youth actively engaged in the labour market has declined from 55 percent to 46 percent between 1997 and 2017 (World dataBank, 2018), which is a concerning trend considering that the number of people aged 65 or older are projected to outnumber youth by 2050 (ILO, 2017). The trend of an

aging global population means the future workforce must be able to sustain the pensions and health-care of a growing number of retired workers. Yet, potential incoming workers are increasingly not seeking employment.

When we dive deeper into youth employment figures, the depth of the crisis is magnified. For those employed, securing quality jobs, which match their level of education or skills is a significant challenge. More and more youth are limited to working part-time or taking temporary positions that lack the stability they desire. Oftentimes these jobs are informal, providing limited legal and social protection (S4YE, 2015). Furthermore, many young people categorized as employed still happen to be living in poverty. In 2013, it was estimated that 286 million employed youth were living on less than US\$4 per day, and 169 million were subsisting on less than US\$2 per day (ILO, 2016). For these individuals, being employed means little as it does not make them any more capable of lifting themselves or their families out of poverty. Additionally, it's estimated that a third of youth worldwide (totaling 621 million) are not in employment, education, or training (NEET), which presents a complex problem (S4YE 2015). Youth who are NEET face negative long-term implications for their career prospects, which only increases their chances of being "left behind."

Economic growth is often believed to be tied to improved unemployment. Based on this belief, the gradual recovery and expansion of the global economy since the financial crisis of 2008 should have yielded more positive employment numbers for youth, but this has not been the case. Since 2008-2009, gross domestic product (GDP) growth rates around the world have rallied, and total employment rates have stabilized. However, youth have been excluded from this recovery, and are seeing their unemployment rates climb higher each year. The global economic outlook for 2017 and 2018 continues to be positive and modest growth is expected due

to moderate pickups in investment and trade (ILO, 2016). Because job growth does not go hand in hand with economic recovery, addressing youth unemployment cannot simply hinge on policy promoting economic growth. Inclusion of youth, who are entering job markets in countries around the world in record numbers, requires a different approach than what's been tried.

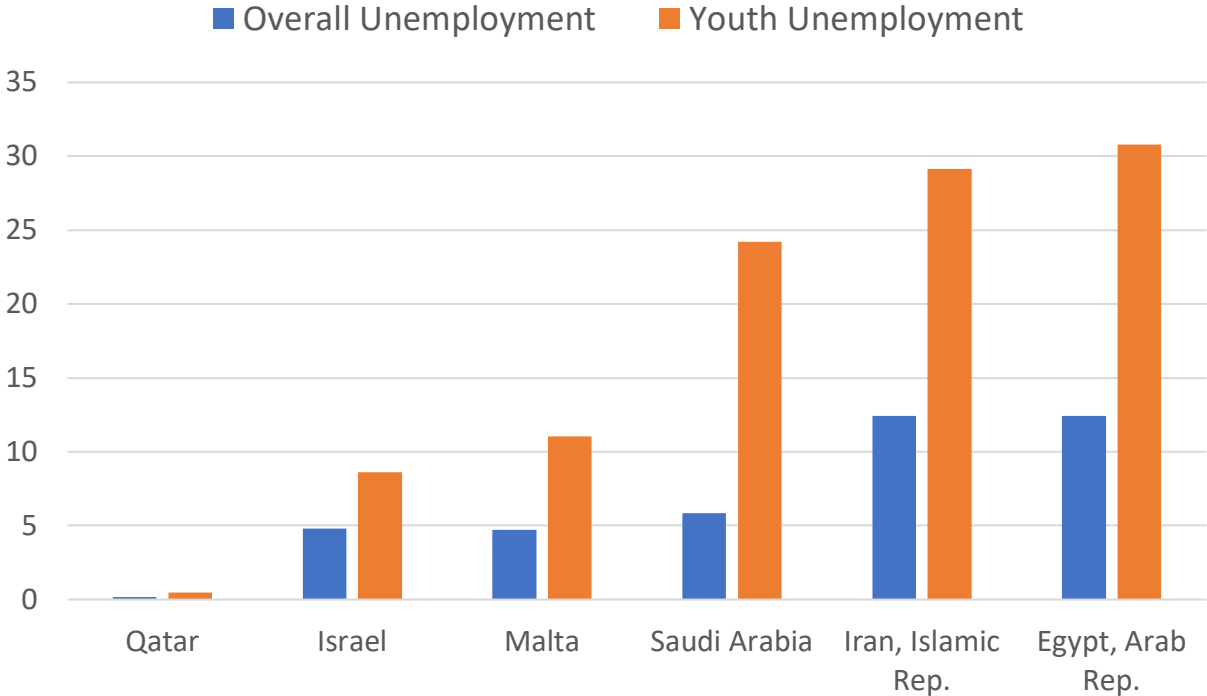
High youth unemployment is a threat for a number of well-established reasons. It is linked to reduced economic growth, civil unrest leading to armed conflict, disruption of traditional power structures, poor health, well-being, self-esteem, and earning potential. Its consequences are not unknown to policymakers (Azeng & Yogo, 2013). Governments around the world have acknowledged the crisis and have invested in: 1) skills development and training, 2) internships, and 3) entrepreneurship as key tools in addressing the crisis (UN, 2016). Public interventions in general have shown evidence of rectifying market failures. On the other hand, government interventions have also proven to hamper effective responses and even contribute to failures. Policy-makers, policy-making processes, or lack of administrative capacity are often reasons behind the poor results. As is often the case in policymaking, there is no “one size fits all” solution to addressing youth unemployment across countries. Rather, context is of the utmost importance. The next section investigates the context of the region of the world most affected by youth unemployment—MENA.

3. Youth Employment in MENA

Numbers show that the alarming global youth unemployment trends are considerably worse in MENA countries. Youth unemployment in the MENA region exceeds all other regions of the world; at approximately 30 percent, it is more than double the global average. Recent data shows that in MENA countries, youth are impacted at approximately twice the rate of the total

population. The poor rates of employment also continue to disproportionately affect youth differently among the region (see Figure 1).

Figure 1: Unemployment Rates (percentage of labour force) 2015



Source: World Bank 2018

Although slight changes and improvements can be expected from the 2015 youth unemployment numbers (due to a slowdown in youth entering the labour force), the youth unemployment rate in the MENA region is expected to remain the worst in the world. Oil-exporting countries are projected to see an increase in the youth unemployment rate from 2016, as a result of a slowdown in growth and tighter fiscal policy.

The failure to create enough quality jobs for MENA youth is expected to increase brain drain and migration flows to other countries where there is more perceived opportunity. At 35 percent, the percentage of young people (between 15 and 29) willing to move permanently to another

country is particularly high in Northern Africa, as well as in the Arab States where this rate grew from 21 percent in 2009 to 28 percent in 2015. In contrast, the global share of young people who are willing to move stood at 20 percent in 2015 (ILO, 2016). Countries in the region are at risk of losing one of their greatest assets—a burgeoning youth population that is highly educated and motivated. This could have serious implications on the development of these countries.

Box 1: The Gender Dimension

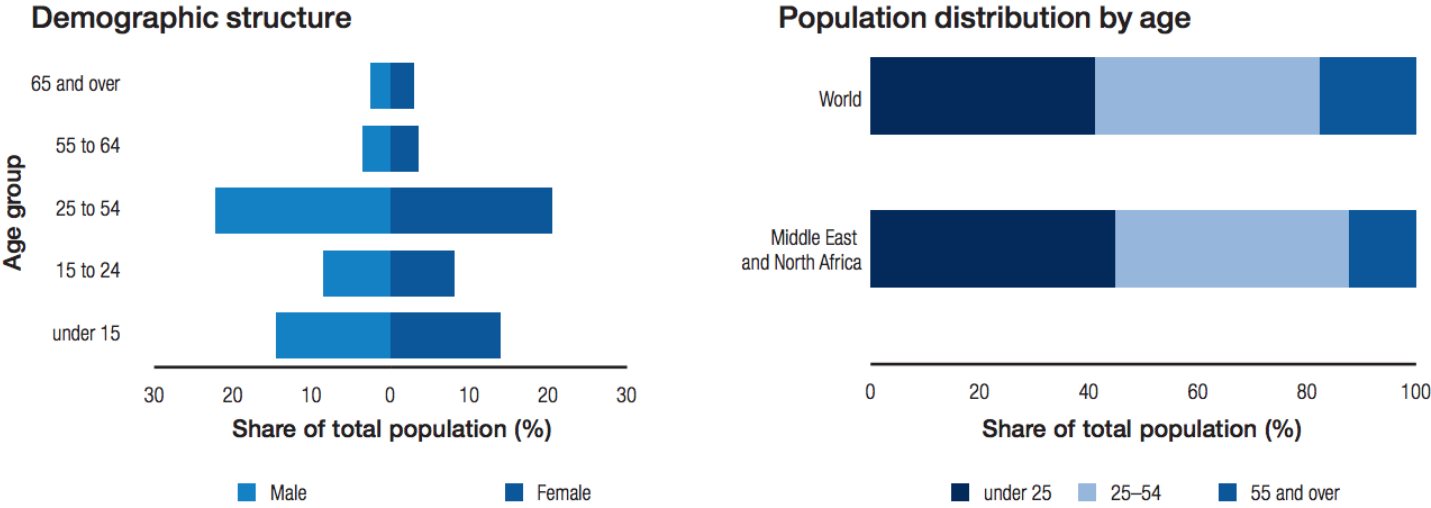
Another important dimension of the youth employment problem is gender. Across most labour market indicators, wide disparities exist between young women and men—almost always in favor of the men. In 2016, for instance, the labour force participation rate for young men stood at 54 percent compared to 37 percent for young women—representing a gap of 17 percent at the global level. Again, these numbers are significantly worse in MENA countries, where female youth participation rates are approximately 30 percent lower than those of male youth in 2016. In terms of unemployment, the highest unemployment rates in the region are suffered by female youth, who carry the “double-negative” effects of gender and age (ILO, 2016). This is important to note because it reminds us that the concern isn't simply for youth as a whole; there is a multi-sectoral dimension to the issue at hand. Interventions will have to consider aspects such as gender if they are to be truly inclusive.

3.1 Demographic Causes of Youth Unemployment in MENA

Young people aged 15 to 24 constitute approximately 20 percent of the population in MENA. In these countries, young people are also the fastest growing segment of the population. With

about 45 percent of the population under 25 years old, it is one of the most youthful regions in the world, with a median age of 22 years compared to a global average of 28 (World Bank, UN Population Division, ILO, 2016).

Figure 2: MENA’s Demographic Structure



Source: United Nations Population Division 2016

The region's current demographic trends can be traced back to the 1950s. Since that time, MENA countries have experienced large declines in infant mortality rates. The combination of low infant mortality and high fertility rates between 1950 and 1980 led to high population growth rates, which then led to high labour force growth rates from 1970 through 2000 and beyond (Ahmed, Guillaume, & Furceri, 2012). What has resulted is a situation that can be regarded as a blessing or a curse. On one hand, the region will continue to have one of the world’s most abundant youth populations in the next decade, which means that a demographic dividend can be realized. When the ratio of the nonworking age group (under age 15 and 65 to 64) relative to the working age group (ages 15 to 64) (referred to as the “age-dependency ratio”)

shrinks, greater productivity and higher income are possible. If the increase in the number of working age individuals can be fully employed in productive activities, other things being equal, the level of average income per capita should increase as a result. This benefit occurs 15 to 25 years after the onset of fertility decline.

At the other end of the argument is the worrisome trend of the growing chasm between job supply and demand. The aforementioned economic benefits of a demographic dividend are not a given. Success depends on factors such as how well young people are educated and prepared for the global job markets that demand modern skills, and how well governments invest in improving educational systems and creating quality jobs for new entrants (Roudi, 2011). If proper corrective action is not taken, high youth unemployment will only worsen, increasing the chances of social and political stability.

High population growth and rapid labour force growth are certainly big reasons for the excessive supply of labour contributing to a high unemployment rate, but we must not ignore reasons behind the low job demand. These can be attributed to the macroeconomic and structural dimensions of unemployment in MENA countries.

3.2 The Problem with Government Jobs

MENA countries have had a long history of being state-centric. The resulting state interventions over the years, especially related to education and employment, have contributed significantly to the youth unemployment problem seen today.

Used by Salehi-Isfahani, the concept of the "authoritarian bargain" is beneficial for understanding the creation of MENA's flawed governance structures. The "authoritarian bargain" occurs when authoritarian governments buy political acquiescence by providing various services,

such as education, to their citizens (Desai, Olofsgrd, & Yousef, 2009). What occurred under post-colonial, nationalist governments in MENA countries decades ago clearly fits under this model. Governments promised education and public sector employment to citizens in return for their political acquiescence. They were able to gain the consent of their citizens because this method was seemingly meritocratic and free of corruption. Ordinary families were happy with the chance to send their children to school, hopeful to use education as a vehicle to escape their poor rural lives by way of attaining government employment. This has been a large reason for the entrenchment of governments' influence in MENA societies. A testament to this reliant culture can be seen through how citizens still look to their governments to fix their problems to this day, despite the years of government policy failures (Salehi-Isfahani, 2012).

A look at wage numbers reveals the extent of public sector employment in the MENA region compared to the rest of the world. According to the most recent data available, MENA has the highest central government wage bill in the world at 9.8 percent of GDP compared to a global average of 5.4 percent (World dataBank, 2018). The high wage bill reflects two things—that both public sector wages and government employment in MENA are comparatively high. For instance, public sector wages are 48 percent and 36 percent higher than those offered by the private sector in Egypt and Tunisia, respectively. Across the MENA region, public sector wages are on average 30 percent *higher* than private sector wages, compared to 20 percent *lower* worldwide. Moreover, since the 2000s, the public sector has accounted for about 33 percent of total employment in Syria, 22 percent in Tunisia, and about 35 percent in Jordan and Egypt. Public sector employment shares are even higher when looking at non-agricultural employment. In Jordan, this number is at 42 percent while Egypt is at a staggering 70 percent (Ahmed, Guillaume & Furceri, 2012).

The dominant role of public sector employment throughout MENA has had a detrimental effect on labour market outcomes. Jobs in the government offer relatively greater job security, higher wages, and more generous benefits (such as childcare and maternity leave policies for women) that have inflated wage expectations and encouraged new entrants to wait for jobs in the public sector rather than apply for private sector positions that would contribute to more productive economic growth. This issue is compounded by the lack of opportunities in the private sector, which the credentialist equilibrium perpetuates via placing misguided importance on diplomas over actual employable skills (Ahmed, Guillaume & Furceri, 2012). As a result, government actions have created a dual labour market, with the public sector representing a high-wage, high-benefit sector (Ahmed, Guillaume & Furceri, 2012) which has diverted resources away from a potentially more dynamic private sector—a sector that is critical for long-term job creation. The next section will examine this crucial aspect of the youth employment problem.

3.3 MENA's Weak Private Sector

In contrast to MENA's overbearing public sector, the region's private sector has been far too absent. If the long-term economic troubles of MENA countries are partially rooted in the role of the state as the primary provider for development, the private sector's minimal role in the economy represents the other side of that coin. Although the level of failure varies across the MENA region, private sector development has been a general challenge for every country. Over the next five years, the MENA region needs to create about 100 million jobs in the private sector (World Economic Forum, 2012) to accommodate the population growth of young job seekers. It

is widely accepted that these jobs cannot be produced by the state alone, and must also include the contributions of a strong private sector.

What are the main reasons for the stalled private sector growth in the MENA region? First, Arab states have been able to determine economic policy based on high amounts of unearned revenue from fuel resources, which make up nearly 66 percent of their merchandise exports (World dataBank, 2018). This is a problem because oil revenue has been found to crowd out other non-resource streams of revenue unless a country's institutions in terms of political stability, regulatory quality, and government effectiveness, are strong. Unfortunately, that is not the case in most MENA countries. Because of weak institutions, the region has experienced symptoms of the resource curse, which include poor economic growth, less democracy, worse development outcomes, and poor financial sector development necessary for long-term inclusive growth (Beck & Poelhekke, 2017; Belinga, Melou, & Nganou, 2017). Private sector development and job creation for youth have been casualties of MENA governments' inadequate response to the curse. Where oil revenues are less significant, state revenues often come from aid and remittances. MENA countries (excluding high income countries) receive net aid of US\$69 per capita, which is even higher than least developed countries (LDCs) which are at US\$44 per capita. The aid gives the state easy access to revenues, which means it can have a large state sector that continues to push the private sector into the margins (World dataBank, 2018).

There is also an important political dimension behind the absence of private sector development in MENA countries. The creation of a private sector independent to the state is seen as a possible threat to the power of Arab rulers. An independent private sector can create independent economic power, and this economic power can easily translate into political power. It is for this reason that the private sector is feared rather than favored by many governments

who base their rule on near-absolute authority. The stubborn industrial policies of MENA governments can be viewed as one such consequence of this political fear. While countries in Latin America and Asia underwent sweeping reforms of their economic structures over the 1980s and 1990s to encourage more private-sector export-led growth, MENA economies did not do the same. By the 2000s and still to this day, governments in MENA still actively implement traditional industrial policies. This is characterized by the strong role of government as well as state interventions that protect and preserve select industries. Common interventions include higher trade protection, higher public involvement in the production of goods and services, more control of strategic sectors like banking, as well as more price controls and subsidies (Nabli et al., 2006). The failures of MENA governments to adapt, which can likely in part be attributed to fear of losing power, have had unintended consequences on not only the industries they tried to protect, but on new potentially productive industries as well as national economies as a whole.

For the private businesses that *have* sprouted in the MENA region, poor regulatory environments have been another hurdle negatively impacting their growth. For example, according to the WEF's Global Competitiveness Report 2011-12, hiring and firing regulations in most MENA countries are more restrictive than those in average emerging and developing countries. Similarly, data from enterprise surveys indicate that the percentage of firms identifying labour regulation as a major constraint to their business operations is, on average, greatest in MENA countries. Indicators of labour market flexibility show that rigidities in MENA significantly limit employment creation, particularly for first-time job seekers, by discouraging firms from expanding employment in response to favourable changes in the economic climate (Ahmed, Guillaume & Furceri, 2012). Put simply, this means that companies are unable to hire youth for positions even if they would like to.

Poor investment climates also negatively impact business growth in MENA. In the most recent Global Competitiveness Report for 2017-18, access to finance is commonly cited by executives as one of the most problematic factors for doing business in MENA countries. The following are how access to finance ranks as an issue in each country: Algeria, 3rd; Bahrain, 3rd; Egypt, 6th; Iran, 1st; Jordan, 2nd; Kuwait, 7th; Lebanon, 10th; Morocco, 3rd; Oman, 3rd; Qatar, 1st; Saudi Arabia, 2nd; Tunisia, 6th; UAE, 1st; and Yemen, 2nd. Detailed indicators of availability of financial services, affordability of financial services, financing through local equity market, ease of access to loans, venture capital availability, and soundness of banks are all generally ranked low in MENA countries (World Economic Forum, 2017a).

Finally, Malik and Awadallah argue that lack of private sector development is due to the surprisingly limited intraregional trade amongst Arab countries (2013). Trade is both clustered and segmented between countries (mostly amongst the higher income Gulf states). Moreover, North African countries are poorly integrated with the rest of the Arab world with most of their trade taking place within the region or with Europe. Such economic fragmentation is costly because it deprives firms of access to larger markets. When there is limited trade between countries, there will be unequal distribution of wealth because insiders, who benefit from protectionism, have incentive to create and preserve the unequal distribution of power. The general consequences of fragmentation are: an adverse investment climate, under-provision of regional public goods, and a high ratio of defense spending—all of which can be found in MENA.

Without a strong private sector, MENA countries cannot expect to create enough jobs. It is widely accepted in the literature that strong private sector development requires a degree of independence from the state. Given the historical power imbalances of the MENA region,

genuine independence will likely continue to be difficult to attain. Any initiatives taken to tackle this problem must transform the underlying attitudes that have taken root and preserve the present systems of governance.

3.4 Education Systems and Skill Mismatches

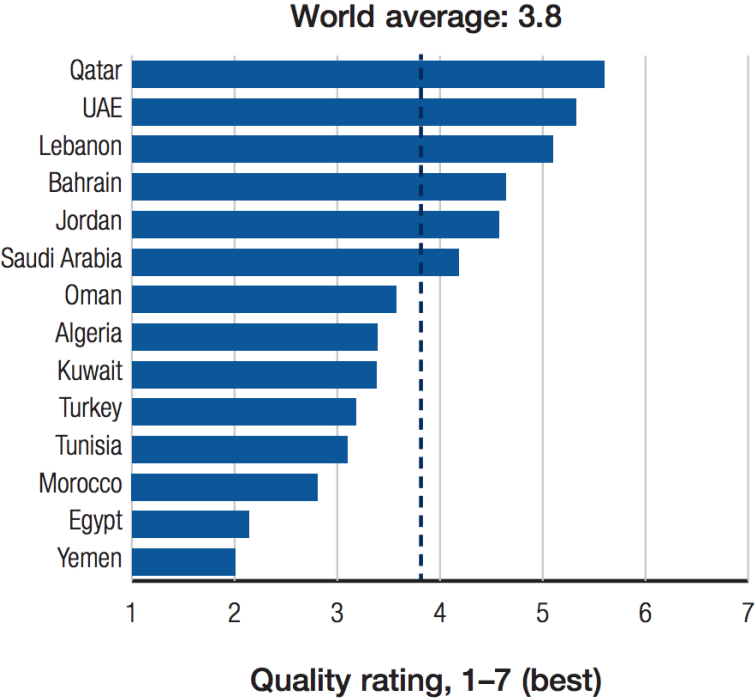
The ability of the public sector to hire graduates has steadily shrunk at the same time the numbers of educated youth seeking employment have increased. Due to this, Salehi-Isfahani argues that the social pact between authoritarian governments and citizens in MENA countries, stemming from job guarantees, has unraveled. Furthermore, the side effects of the public sector's decisions on education have exacerbated the issue (2012). According to Salehi-Isfahani, the bargain struck created a credentialist equilibrium, in which there became an overemphasis on requiring diplomas or degrees for jobs. Due to the strong influence of the state, the education system specialized in producing what the public sector demanded, which was formal credentials rather than productive skills the private sector needed to be globally competitive. As a result, young graduates were ill equipped when it came time to seek employment with limited public sector options. To illustrate this, a study of business owners in Saudi Arabia listed “[t]he role of the public education system in Saudi Arabia does not prepare young citizens to meet market demands,” and “[t]he importance of being an English speaker affects your decision in hiring a new applicant” as the highest rated reasons for not being able to hire Saudi citizens in the private sector (Alghamedi, 2016).

What sets the employment experience of youth in MENA countries apart from other regions of the world (aside from extremely high unemployment rates) is how little education helps to shorten the waiting time between leaving school and taking their first jobs. In most countries,

higher levels of education are sought to increase chances of gaining employment. Data shows that this is generally a good idea, as unemployment rates decrease with the attainment of tertiary education for individuals in middle and high income countries (World Bank, n.d.). Unintuitively, in MENA countries, there is a statistically significant inverse relationship between the two variables (Salehi-Isfahani, 2012). Furthermore, the duration of unemployment for youth is longer than it is for adults, contrary to patterns seen in other regions. This has detrimental effects in the long term for the MENA region's human capital potential (Mourad & Chibber, 2016).

Across MENA, countries have improved the educational achievement of their younger generations at notable rates, and by 2030, the region is set to expand its tertiary educated talent pool by 50 percent (World Economic Forum, 2017b). Despite these gains, investments in education still have not translated into inclusive employment; youth employment is still disproportionate to adult employment. In addition, gender gaps in workforce participation remain wide across the region, ranging from over 40 percent in Kuwait and Qatar, to nearly 80 percent in Algeria and Jordan. This is occurring at the same time women are more educated than ever, which reflects a clear inefficient use of education investments. Related to the skills mismatch due to the credentialist equilibrium, is the over-emphasis on *quantity* rather than *quality* of education. As seen in Figure 3, many MENA countries are still rated below the world average in terms of their education systems. This is also seen in tests such as the Trends in Mathematics and Science Study (TIMSS) and the Programme for International Student Assessment (PISA), where MENA test-takers score well below the average and below what is expected given the qualifications achieved (World Economic Forum, 2017b). This is especially concerning given the fact that nearly half of the tertiary-educated members in the region hold degrees in the associated STEM field (World Economic Forum, 2017b).

Figure 3: Quality of MENA’s Education Systems



Source: World Economic Forum, Executive Opinion Survey 2017

4. Interventions

Following the uprisings of the Arab Spring in the early 2010s, the governments of the MENA region could no longer ignore the frustrations of their youth populations. In the aftermath of the revolutions, they began to take action, adopting national growth strategies focused heavily on jobs, social protection, and labour rights, with young people specifically in mind. According to the IMF, such strategies at the national level are important, because only through “coherent, integrated and well-designed employment policies,” can employment related problems be addressed (IMF, 2018). A table summarizing each MENA country’s most recent growth strategy is included in the Appendix under Box 1.

In 2015, further momentum for youth inclusion was established with the adoption of the SDGs. The 2030 Agenda for Sustainable Development places full and productive employment and decent work for youth at the centre of the new development vision. It emphasizes “the catalytic power of youth employment in poverty alleviation, economic growth, and peace and prosperity for all” (UN, 2015). With every MENA country signing on, the region seems as poised as it's ever been to make real progress for their youth.

4.1 National Inclusive Growth Strategies in MENA

Over the past few years, the IMF has engaged MENA countries on their Inclusive Growth agendas through policy diagnosis and capacity building in core areas. The IMF believes that in order to promote inclusive growth, a broad set of reforms closely coordinated with stakeholders is required. This aligns with the recommendations commonly provided in the literature by academics, analysts, and other experts. More specifically, the IMF bases their policy priorities for the MENA region around the core areas seen in Figure 4:

Figure 4: IMF Policy Priorities for Inclusive Growth



Source: IMF 2018

Fortunately, MENA countries have recognized the need for a comprehensive approach to job creation grounded in reforms to diversify and develop the private sector. This entails improved business and regulatory environments, better access to finance, and a level playing field for small firms to compete with larger firms and state-owned enterprises. Policies to attract foreign investment, promote innovation, and to better integrate MENA into global trade networks will also be needed to leverage the impact of reforms. These core areas are linked to the need for adaptable and skilled labour.

As per the IMF, Djibouti, Egypt, Jordan, Kuwait, Morocco, Qatar, Saudi Arabia, Tunisia, and the UAE are all implementing policies to ease the time and cost of starting a business by introducing one-stop registration, and in some cases using e-government technologies. In other

examples, Morocco, Tunisia, and Saudi Arabia have streamlined customs procedures; several countries have enacted new laws targeting small and medium-sized enterprises (SMEs), public-private partnership frameworks, or bankruptcy; and Kuwait and Saudi Arabia have taken measures to facilitate foreign direct investment. These measures are all part of efforts to improve the business environment to nurture private sector development.

MENA countries are also taking measures to address access to finance, which is one of the region's top constraints to private sector development. To illustrate this, 70 percent of the MENA population does not have a bank account and the region's loans-to-SMEs ratio is the lowest in the world (2 percent of GDP), even though SMEs account for 60 percent of employment (IMF, 2018). In response, MENA countries are taking measures to increase access to finance for SMEs and women. The Central Bank of Egypt announced a stimulus package of lending that could amount to \$25 billion for SMEs at attractive lending rates (Williamson, 2016). In Jordan, FINCA Jordan group is delivering micro-loans to woman entrepreneurs operating simple businesses, who do not have the capacity to access formal financial services (FINCA, n.d.). Mobile banking is a technology also being expanded in Djibouti, Jordan, and Morocco that's meant to improve access to finance for the hardest to reach (IMF, 2018).

To improve job seekers' employment prospects, MENA countries are implementing measures to improve workers' skills and boost labor demand in the private sector. Active labor market policies are being pursued to benefit women and youth in Egypt, Jordan, Morocco, and Saudi Arabia. Having ensured relatively high levels of access to schools (about 80 percent for primary education), countries are now shifting focus to improve the quality and efficiency of education, since the region is rated poorly in this area (see Figure 3). A large body of literature shows that active labor market policies are effective at helping to increase employment and

decrease unemployment. However, as Bilgin and Kilicarslan note, while reform in labor markets is necessary for improving employment outcomes, it is not sufficient on its own—especially in politically unstable environments where reform is difficult (2008).

Governments of MENA have taken heed of the underlying causes of youth exclusion in their societies, much of which they helped create. Their complicity will quickly be forgotten if their new reforms prove to be successful in alleviating the crisis. At first glance, governments seem to be taking the proper steps by cultivating private sectors through supportive regulations that are focusing on improving educational quality, inclusive active labour market policies, and access to finance. But, there are likely to be transitional pains. History tells us that policies rarely deliver fully on their promises. We needn't look further than Morocco for evidence of this. Following the 2011 Arab Spring, Morocco pushed forward with some of the most significant labour reforms in the region, expanding vocational training, apprenticeships, and employment subsidies. Its government even adopted constitutional reforms that promised a greater voice for youth in the economy and governance (Prince, 2016). However, nearly three years later, youth unemployment in Morocco had risen from 18 percent in 2011 to 20 percent in 2014 (World dataBank, 2018). In fact, a recent meta-analysis of evaluations of youth-targeted interventions found that only a third of them reported a statistically significant and positive impact on employment outcomes or earnings (Kluve, et al., 2016). Suffice to say, despite the region's ambitious and commendable strategies, its complex web of political, economic, and cultural forces assures no easy path to success.

What's currently unfolding in Egypt provides an example of how these national growth strategies, as they are, may not have their intended outcomes. As part of its Vision 2030 national growth strategy, Egypt has set a target of achieving 5 percent unemployment by 2030, more than

halving the current rate in an effort that focuses particularly on youth, who represent 90 percent of the unemployed (IMF, 2018). Its objectives also include reducing poverty, increasing women's labour force participation, reducing the gender gap, and improving the business environment. However, if current events in Egypt are any indication, old government habits die hard.

In November 2016, Egyptian President Abdel Fatah el-Sisi signed a \$12 billion three-year loan agreement with the IMF to aid Egypt's ailing economy. The agreement came with a set of controversial conditions; the IMF's austerity measures, meant to improve investor sentiment, led to a spike in consumer prices that Egyptians were not prepared for. These measures also included the introduction of a 13 percent value-added tax (VAT) and the reduction of energy subsidies which dramatically increased electricity bills. Safety net programmes introduced to mitigate the negative effects of austerity measures have been insufficient, reaching only a small fraction of the country's poor. In response, Sisi's military government has been playing an increasing role in the economy to quell public backlash from the reforms. In past instances of unrest, President Sisi's government has intervened by seizing and provisioning basic public goods itself, which appears to be its strategy once again. There is concern over how this will impact the long-term development of Egypt. The expanded role of the military government, which is exempt from many of the IMF austerity measures, gives it an unfair advantage over private firms. Furthermore, military businesses are exempt from the new VAT and enjoy other benefits such as tax exemptions on imports and real estate, subsidized loans, special access to land, and an unpaid labour force. In this type of business environment, the domestic private sector in Egypt cannot compete with either foreign companies or the military. Job creation can be expected to remain stagnant, as there will be little opportunity for the private sector to increase their participation in

the Egyptian economy as originally hoped for by the IMF. This does not bode well for their national inclusive growth agenda, or for youth employment (Oxford Analytica, 2018)

Nevertheless, it's still too early to write these reforms off. Much of what has been proposed and implemented is promising, and investments for youth employment programmes/policies are best viewed in the long-term once their results can be broken down. But, the magnitude of the youth employment issue still leads one to wonder whether what's being done is creative or forceful enough to sustainably improve youth unemployment rates. The next section explores possible key innovations in programming with regards to addressing youth unemployment.

4.2 SDGs, Innovation, and Youth Employment

The highly ambitious SDGs will require unprecedented global coordination efforts in order to be achieved. Innovative practices are viewed as a necessary component of achieving these goals and are crucial for the governments in the MENA region to consider, as arguably no other region will have a more difficult time reaching these youth related employment targets. Youth-related targets of the SDGs are summarized in Table 1.

Table 1: SDGs related to youth employment

4.4	“By 2030, increase the number of youth and adults who have relevant skills, including technical and vocational skills, for employment, decent jobs and entrepreneurship”;
4.6	“By 2030, ensure that all youth and a substantial proportion of adults, both men and women, achieve literacy and numeracy”;
8.5	“By 2030, achieve full and productive employment and decent work for all women

	and men, including for young people and persons with disabilities, and equal pay for work of equal value”;
8.6	“By 2020, substantially reduce the proportion of youth not in employment, education or training”;
8.b	“By 2020, develop and operationalize a global strategy for youth employment and implement the Global Jobs Pact of the International Labour Organization”; and
13.b	“Promote mechanisms for raising capacity for effective climate change-related planning and management in least developed countries and small island developing States, including focusing on women, youth and local and marginalized communities.”

Source: United Nations: Transforming our world: The 2030 Agenda for Sustainable Development, General Assembly, 70th session, Resolution adopted by the General Assembly on 25 Sept. 2015, A/RES/70/1 (New York).

As we have seen, the reasons behind the high rate of youth unemployment are deeply rooted in the institutions, culture, and history of the region. As such, social and institutional change has and will continue to be a long and difficult process. For these reasons, innovative methods may be particularly important for executing reforms successfully in MENA countries. There must be coherence among all stakeholders such as governments, the private sector, civil society, and international organizations like the ILO, IMF, and World Bank under the guidance of the 2030 Agenda and SDGs, which every MENA country has adopted.

Two notable large scale partnerships are leading the innovation sphere for youth employment. These are: *Solutions for Youth Employment (S4YE)* and the global initiative for *Decent Jobs for Youth*. Launched in 2014, S4YE is a multi-stakeholder coalition among public

sector, private sector, and civil society actors that aims to provide leadership and resources for catalytic action to increase the number of young people engaged in productive work. Current partners include: Accenture, the ILO, International Youth Foundation, Plan International, RAND Corporation, the World Bank, Youth Business International, Microsoft, the MasterCard Foundation, the Rockefeller Foundation, and the governments of Germany, Norway, and Albania. S4YE has piloted innovative interventions on youth employment by working closely with its private sector partners. These innovations are shared as part of S4YE's Impact Portfolio, which is a group of 19 diverse and high-potential youth employment projects representing 15 developing countries. This unique set of projects is serving as a "learning laboratory" through which S4YE aims to learn, assess, showcase, and support its innovations. The lessons learned from the impact portfolio will then feed into the planning and implementation of further "2nd generation" youth employment programs undertaken by S4YE and its partners (S4YE, 2017).

In 2016, the global initiative called Decent Jobs for Youth was established. It is the first-ever, comprehensive United Nations system-wide effort for the promotion of youth employment. The partnership brings together the resources and influence of various global partners to maximize the effectiveness of youth employment investments and assist Member States in delivering on the 2030 Agenda for Sustainable Development. One of the partnership's key priorities is to mobilize domestic and international investments to scale up action on youth employment. It aims to explore innovative financing mechanisms, leveraging global facilities and financing for development in efficient and inclusive ways (Decent Jobs For Youth, 2017).

4.3 Entrepreneurship and Self-Employment

A significant portion of S4YE and Decent Jobs for Youth's work has focused on promoting job creation through entrepreneurship and education of necessary skills. For instance, of the 26 total projects committed under Decent Jobs for Youth, 23 are under the themes of: 1) *digital skills for youth*, 2) *quality apprenticeships*, and 3) *youth entrepreneurship and self-employment* (Decent Jobs For Youth, n.d.). This is because evidence shows that entrepreneurship interventions can effectively boost employment and earnings among young people, especially in cases when they're combined with skills training, access to finance, and advisory services (WWINYE, n.d.). Still, it's important to note that it is not a panacea; entrepreneurship is not for everyone, and even for those adept at it, the high rate of failure for SMEs is a limiting factor of its impact.

Nevertheless, entrepreneurs are important income providers and job creators, and a healthy business climate that supports young entrepreneurs is essential for tackling youth unemployment. There is consensus in the literature on youth employment that entrepreneurship is key for providing opportunities to the world's largest-ever population of young women and men to create more and better jobs in the private sector. Globally, the private sector drives jobs growth, accounting for 87 percent of total employment in the formal and informal economies in 2016. Much of the world's 1.2 billion young people live in developing economies, where SMEs account for 52 per cent of total employment. SMEs and young firms are often more dynamic than large firms when it comes to employment growth—young entrepreneurs are more active in sectors of high growth and more likely to hire other young employees. It is believed that youth-led enterprises can trigger significant momentum for youth-led job creation, given that start-ups account for up to 50 percent of newly created jobs, and young entrepreneurs primarily employ

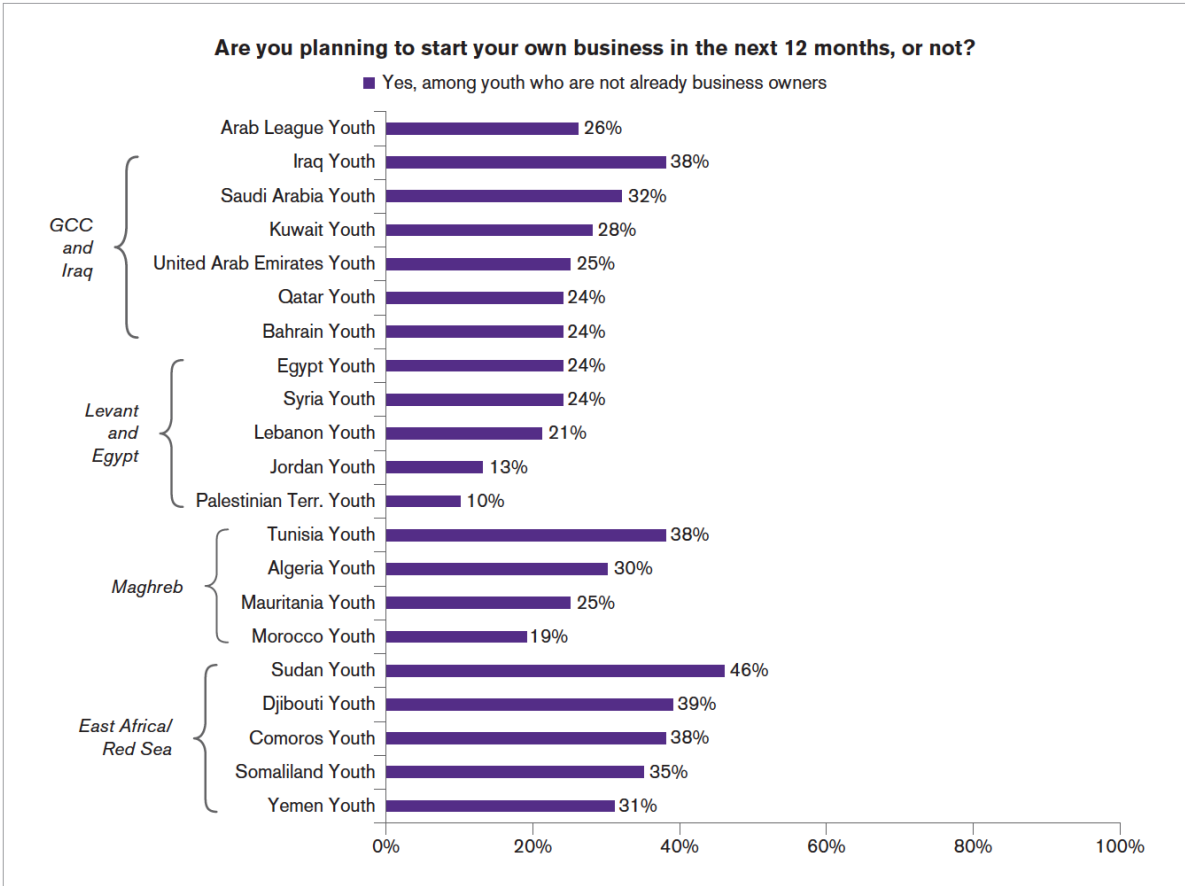
their peers (Amin, et al., 2016). However, there is a need to enhance support for young entrepreneurs. Established business rates among adults are substantially higher than for youth despite young people showing significantly higher levels of entrepreneurial initiative. Another benefit of youth entrepreneurship is that it can improve the resiliency of young people on the job market, as it provides agency and a sense of purpose that empowers them to find their own solutions to social and economic challenges. If youth are properly supported, they can benefit economies through innovation that stimulates both productivity and competition.

4.4 MENA Youth and Entrepreneurship

With one of the largest regional youth populations in the world, there is tremendous untapped potential for entrepreneurship among the MENA youth. The results of a Silatech initiated poll in 2009 are demonstrative of this. The perspectives of 8,597 national youth (aged 15 to 29) across 19 Arab and Somaliland countries, were captured in this poll in partnership with Gallup. At the time of the survey, many Arab youth still desired government jobs, believing that they guaranteed them good, secure salaries. However, results suggested the beginning of a waning faith in government jobs, which was being replaced with growing enthusiasm for entrepreneurship.

From the survey, it was evident that Arab youth recognized entrepreneurship as key to future job creation in the Arab world. Solid majorities of youth in nearly every country surveyed believed that entrepreneurs help to create jobs. Furthermore, majorities of young people across the Arab world believed their areas were good places for entrepreneurs to form new businesses. In perhaps the most telling statistic, a sizable percentage of young people who do not already own businesses said they were planning to start their own in the next 12 months (see Figure 5).

Figure 5: Percentage of youth planning on starting a business in the next 12 months



Source: The Silatech Index: Voices of Young Arabs 2009

The key takeaway from the survey is that a strong entrepreneurial spirit exists among Arab youth. In contrast to the numbers seen in Figure 5, just 4 percent of Americans aged 15 to 29 who do not own a business say they are planning to start one in the next year (Silatech, 2009). This suggests that MENA youth are realizing that they need to create their own jobs, rather than wait for the government to provide them with opportunities. Further, more recent proof of this development can be seen through the percentage growth rates of professions in the region. As seen in Figure 6, "Entrepreneur" was the fastest growing profession between 2011 and 2016 (World Economic Forum, 2017b).

Responses of the survey also gave insights into the perceived and actual difficulties of starting businesses in countries holding potential young entrepreneurs back. Majorities of young people in the region said it was not easy for anyone to obtain a loan to start a business in their country. Youth in the Maghreb and Levant and Egypt regions were least likely to say their governments make paperwork and permits easy enough to get for people who want to start a business. Interestingly, the Silatech report notes that a sizable percentage of youth said they didn't know or refused to answer the question, which to them suggested a lack of knowledge in critical business skills.

Figure 6: Percentage growth of professions in MENA

Profession	Growth, 2011–2016
Entrepreneur	37%
Program Analyst	34%
Quality Assurance Tester	34%
Health and Medical	22%
Business Leadership	21%
Education	19%
Physicist	15%
Technician	13%
Language and Localization Specialist	13%
Non-profit Board Member	11%
Accounting and Tax	10%
Care and Personal Services	10%
Political and Legislative	9%
Mariner	9%

Source: LinkedIn

In line with the previous findings about SMEs and young firms, in a survey of businesses conducted for MENA countries, responses show that younger or larger firms do tend to employ proportionately more workers under 30. This result, combined with the evidence that younger firms in MENA economies create more jobs than older firms (Schiffbauer et al., 2015) suggests that encouraging firm entry would help boost youth employment in the formal private sector. The survey results also indicate that firms with proportionately more young employees are significantly more likely to increase employment, to invest in fixed assets, and to innovate.

Returning to the Silatech survey of Arab Youth, there are indications that young people are prepared and optimistic for whatever challenges lie ahead. When asked whether young men, young women, the elderly, or the West could help their respective countries make substantial progress in the next 10 years, a strong number of Arab youth saw themselves as leading the charge. It appears that youth are willing to take the mantle; they now just need the support to realize their goals.

5. Financing and Youth Employment

The main challenges for youth entrepreneurship and self-employment are closely tied to those regarding youth employment more broadly (Kew et al., 2013). These include:

- Lack of enabling policy, regulatory, and institutional environments;
- Weak entrepreneurial environments;
- Limited access to finance and investment opportunities; and
- Limited skills and knowledge transfer.

Based on findings from the causes of youth unemployment in MENA, we know that the above challenges indeed apply to the MENA region. And although efforts have been made to address

each of these issues through national inclusive growth strategies, affecting abstract elements like culture and environments is a slow and uncertain process. Therefore, effective policy would be to first focus on targeting areas where the most impact can be had in the shortest amount of time. In this case, that would fall under the more immediate challenges of limited access to finance, as well as skills and knowledge transfer. As stated in Section 3.3, access to finance, according to the most recent Global Competitiveness Report, is one of the most problematic factors for doing business in the MENA countries. When considering that challenges are often exacerbated for young people, and even more so for those disadvantaged within this population (young women, youth with disabilities, ethnic minorities, etc.), the importance of addressing the barriers are amplified.

5.1 The Importance of Youth Financial Inclusion

The Consultative Group to Assist the Poor (CGAP) defines financial inclusion as "the situation in which households and businesses have access and can effectively use appropriate financial services" (Sykes et al., 2016). Access to finance refers to the availability of financial services such as deposits, credit, payments, money transfers, leasing, or insurance. In their analysis, Sykes et al. find evidence of a positive linkage between increasing access to finance for youth, and job creation. This supports anecdotal accounts of how such measures contribute to helping youth make their own economic decisions to escape poverty. Increased access to financial services coupled with increased capability to use those services effectively can improve youth employment outcomes by increasing their capacity to invest in their own educations to improve employability, or to finance their own income-generating activities. In their study, Sykes et al. come to several conclusions. The first is that impact is more notable if financial

components are complemented with non-financial services such as training in entrepreneurship, financial literacy, and mentorship opportunities. Second is that savings-based interventions demonstrate the weakest link with positive employment outcomes. Third is that the provision of larger amounts of finance to young people with growth-oriented businesses seem to lead to higher levels of job creation. Finally, there is still a limited evidence base on the impact of financial inclusion of youth, and further research must be undertaken to better understand its linkages with job creation (Sykes et al., 2016).

Despite the need for more evidence, there is undoubtedly value in financial inclusion of youth that makes it preferable to financial exclusion, which is the current reality. The robust relationship between access to finance and development outcomes is well-established. So is the truth that financial exclusion is a pathway to slowed economic growth, increased poverty and inequality.

Yet, access to financial services for youth is extremely difficult. Few financial service providers (FSPs) such as banks, credit unions or microfinance institutions, understand and adequately serve the youth market, and regulatory frameworks are not designed to be youth inclusive or protective of youth rights. Youth face barriers such as: policy and regulatory barriers, high transaction costs, higher risk profiles, lack of credit history, lack of collateral, and negative stereotypes (Sykes et al., 2016; Alotaibi, 2015). If youth remain excluded from accessing the financial services needed for them to create their own opportunities and realize their agency, economies around the world will lose out on their potential contributions to private sector development, job creation, and economic development. At the same time, those who have access to financial services will continue to benefit, driving income inequality in developing countries to new heights.

5.2 Extent of Youth Financial Inclusion

Evidence from the Global Findex database indicates that youth make up a disproportionately large share of unbanked persons worldwide. Globally, 46 percent of youth have an account with a formal financial institution, compared with 66 percent of adults. Just 18 percent of youth report having saved formally in the past year compared to 30 percent of adults, and 5 percent report having borrowed formally compared to 12 percent of adults (see Table 2) (Sykes et al., 2016).

Table 2: Financial inclusion of youth (15-24) and adults (25+), by region

		World	East Asia and Pacific	Europe and Central Asia	High-income OECD economies	Latin America and the Caribbean	Middle East and North Africa	South Asia	Sub-Saharan Africa
Account ownership	Youth	46	60	36	84	37	7	35	20
	Adults	66	70	55	96	56	17	49	33
Borrowed	Youth	5	6	4	9	6	2	4	3
	Adults	12	12	15	20	13	7	7	8
Saved	Youth	18	26	5	48	11	3	9	11
	Adult	30	39	9	52	14	5	14	18

Source: World Bank, Global Findex Database 2014

When comparing regions, MENA youth are rated the poorest. Only 7 percent of youth in the MENA region have an account at a formal financial institution. Only 3 percent saved at a formal financial institution, and only 2 percent borrowed. Levels of financial inclusion for youth are significantly worse than for adults across all regions, but the dreadful numbers seen in MENA stand out. According to the findings of Sykes et al., savings-based interventions have the least notable impacts on job creation, while amounts loaned (if meeting a certain threshold) have the most significant impact. In this case, careful attention should be paid to the level of inclusion in terms of percentage of youth who have borrowed from formal financial institutions—a number that is notably low around the world, not just in MENA.

5.3 Failures of the Financial Sector

MENA countries have seen little progress in financial inclusion in the 21st century. In 2013, Silatech and Sanabel conducted a survey of 43 FSPs in ten MENA countries, focusing on the type and extent of financial services they provided to youth. Also of interest to the survey conductors were the FSPs' attitudes towards their young clients. Despite finding that there was no discernible difference in repayment rates between youth and adult clients—meaning that youth are not riskier clients—Coury and Rashid (2015) highlight that services to youth clients (as a share of FSP portfolios) are estimated to be 10–40 percent below the share of youth in the working-age population. While 29 of the surveyed FSPs said they intentionally targeted the youth segment, only 15 had developed financial products dedicated to youth (Sykes et al., 2016).

An even more expansive survey of businesses in certain MENA countries was jointly conducted in 2013-14 by the European Bank for Reconstruction and Development, the European Investment Bank, and the World Bank. The results of the MENA Enterprise Survey and the subsequent assessment published in 2016, provides a rich source of information about MENA firms and the business environments they operate in. Topics include access to finance, women's and youth's participation in the labor market, along with many other aspects of the business environment. The survey covered the countries of Djibouti, Egypt, Jordan, Lebanon, Morocco, Tunisia, West Bank and Gaza, and Yemen, leaving out several countries included in the definition of MENA for the purposes of this paper. That said, the results of the survey still provide insights broadly applicable to the rest of the region when it comes to financial inclusion of young people.

Interestingly, according to the enterprise survey, MENA economies have a smaller share of credit-constrained firms than other regions of the world. However, this does not necessarily

equate to ease of access to financial services. Most large firms report that they do not have a need for business loans because they already have sufficient capital. Rather, this evidence suggests that there is a large disconnect between firms and banks in the region, whereby a high number of firms exclude themselves from formal financial services. These firms have adjusted their strategies to have limited involvement with the financial sector, instead relying on internal financing even though it comes at the cost of larger growth opportunities (Betz et al., 2016). What is the reason for this distortion? To gain a fuller understanding of the financial sector, one must take into account the supply side of the financial sector. In MENA, banks are highly cautious and based on traditional lending technologies and conservative practices. Consequences of this risk-averse environment include the high prevalence of audited financial reports, stringency of collateral practices, and wide perception of low growth opportunities. The high interest margins of banks in the region is also consistent with previous findings that competition between banks is weaker relative to other regions, resulting in high market power and little incentive to seek out new market segments to provide financial services for. What has resulted is lending highly concentrated in a limited number of large firms, and low SME lending. Firms are not growing, and firm entries that would be beneficial for youth employment are not occurring frequently enough. Ultimately, commercial banks have not been doing enough of what's needed to improve financial inclusion of youth, which has left the door open for alternative methods of finance to the traditional sector.

5.4 The Role of Innovative Finance

Low oil prices, budgetary constraints, and austerity measures across the MENA region mean that governments can no longer rely on their resource windfalls to ensure a steady supply of

public sector jobs. In its place, the underdeveloped private sector will have to bear the responsibility of absorbing the incoming masses of young job-seekers. If bolstering the number of young, innovative enterprises through entrepreneurship is a key step in stimulating job creation in the private sector, how do the various stakeholders support this sector in light of limited resources, compounded by the other severe obstacles of political instability and corruption? Innovative financing is supposed to help answer these questions.

Innovative financing instruments are tools that can complement traditional international resource flows (such as aid, foreign direct investment, and remittances) to mobilize additional resources to address global social and environmental challenges. This is done by tapping into new funding sources or engaging with new types of partners through mechanisms that "combine commercial and philanthropic objectives" (Innovative Financing Initiative, 2014). Innovative finance not only pertains to additional resources, but enhanced efficiency of their flows, such as through reduced delivery times or costs of resources in humanitarian crises. Related to this is the intermediary role innovative finance can play by redistributing risk for invested parties, which reduces transaction costs and incentivizes commitments. Lastly, the results-oriented basis for financial flows is another important characteristic of innovative finance, meaning funding is usually linked to measurable performance to ensure positive development outcomes (World Bank).

Compared to official development assistance (ODA) and traditional private-capital flows to developing countries, funding from innovative finance instruments is still relatively small; however, the potential for it to grow is substantial. Since 2001, innovative financing for development has experienced 11 percent annual growth (Innovative Financing Initiative, 2014). Starting at approximately \$2 billion in 2001, the market grew to nearly \$9 billion by 2012. Based

on historical performance, innovative financing mechanisms are projected to mobilize \$24 billion per year by 2020 (Innovative Financing Initiative, 2014). The continued growth of innovative finance will only become more important, as levels of ODA (as % of GNI) across all regions of the world gradually decrease (UNDP, 2018). This is especially critical for developing countries, which rely considerably more on concessional types of finance such as ODA compared to developed countries.

The growth of innovative finance over the past two decades has had proven benefits. Where traditional financial approaches have failed, innovative finance methods have filled the gap, providing people in developing countries with access to the goods, services, and capital central to poverty reduction (Innovative Financing Initiative, 2014). For example, it has:

- provided significant, private sector capital to people and projects that would not normally have access to funds;
- channeled financial assets through structuring and intermediation to meet the needs of development problems; and
- supported cooperation between the public and private sector to incentivize the scale up of actions that have had wider social benefits.

The Global Fund is an example of a partnership using an innovative finance approach that has had a large-scale impact at the global level. Founded in 2002, the Global Fund is a partnership organization between governments, civil society, the private sector, and people around the world affected by diseases. It raises and invests nearly US\$4 billion a year to support projects designed to accelerate the end of AIDS, tuberculosis, and malaria; saving an estimated 22 million lives and raising more than US\$50 billion since its inception (Global Fund, 2018).

While the Global Fund influences global health, innovative finance is not constrained to any one sector. Among many others, it has also been used in the environmental sector to pool resources aimed at renewable energy, energy efficiency, emissions reductions, and waste management (UNDP, 2018). Regarding the issue of youth employment, there is no indication that similar financial tools cannot be applied. The more pertinent question would be which tools are best suited for the task.

Figure 7: UNDP Innovative Financing Tool-Box

Bonds	<ul style="list-style-type: none"> • Sovereign bonds issued on international and domestic markets • Diaspora bonds • GDP-linked bonds • Green/blue bonds • Social impact bonds • Development impact bonds
Loans and guarantees	<ul style="list-style-type: none"> • Loans (<i>Including:</i> Multilateral and bilateral development banks, other official flows (OOFs), counter-cyclical loans, contingent credit facilities, development policy loan deferred draw-down options, catastrophe risk deferred, drawdown options, debt buy backs, debt-swaps, blended finance, public-private partnerships, guarantees)
Public Revenue	<ul style="list-style-type: none"> • Taxes and levies (<i>Including:</i> income taxes, value added/consumption tax, property taxes, tariffs, green taxes, domestic financial transaction tax, airline ticket tax)
Insurance	<ul style="list-style-type: none"> • Weather index-based insurance • Catastrophe Risk Insurance Facility
Funds	<ul style="list-style-type: none"> • Vertical Funds (e.g. GAVI Alliance, Global Fund and UNITAID, Adaptation Fund, Global Environment Facility, Green Climate Fund, Securities and structured funds) • Microfinance investment funds
Grants	<ul style="list-style-type: none"> • Official Development Assistance (ODA) • Philanthropic and other private donations

Source: UNDP (2015)

In addition to the aforementioned financing tools, there are a plethora of instruments available that fit under the definition of innovative finance—some well-established, others more unproven. A comprehensive list used by the UNDP is provided in Figure 7. With time, there have been innovations within the innovative finance sphere itself, adding to the variety and

sophistication of approaches available in the financing toolkit. The suitability of each option is highly dependent on factors such as the volume of funds that can be mobilized and the breadth of regional/sectoral applications. Furthermore, when it comes to choosing the right mix of options, one must consider the local context in which instruments are being applied, as well as what exactly is being financed. For example, when financing the provision of basic social needs in the world's least developed countries, highly concessional types of finance generally need to be utilized. On the other hand, in higher income developing countries such as those found in MENA, loan financing is viewed as more applicable for funding investments in infrastructure and the development of SMEs (UNDP, 2018).

5.5 Innovative Finance for Youth Employment

The potential social impact of innovative finance appears promising. Its diverse toolkit allows for an equally diverse range of causes to which they can be applied. In terms of which tools would be most relevant to address youth unemployment, looking to the work of the UNDP is a useful starting point. The UNDP provides a platform of knowledge and guidance needed to help users learn more about the financing solutions available to integrate into their sustainable development financing strategies. It also provides users with guidance on the potential, advantages, disadvantages, risks, and major characteristics of the financing solutions in the context of different country settings (UNDP, 2017). The UNDP platform links innovative finance tools with specific SDGs. Under SDGs 8, 4, and 13 related to youth employment, the UNDP suggests the following innovative financing solutions:

- Crowdfunding
- Enterprise Challenge Funds

- Green Bonds
- Impact Investment
- Lotteries
- Public Guarantees
- Remittances (Diaspora Financing)
- Voluntary Standards (finance)

Findings from a Decent Jobs for Youth report (2017) indicate that several of these solutions are presently being explored. According to the report, young entrepreneurs are increasingly turning to innovative means of financing to overcome the challenges posed by traditional avenues of access to finance. Mechanisms such as impact investing and crowdfunding platforms which also tap into diaspora support and remittances, are gaining importance in improving access to finance for young entrepreneurs. Young entrepreneurs are also exploring mobile financing, peer-to-peer lending, and investment, which enable established entrepreneurs to connect with emerging entrepreneurs and thereby increase lending, equity investment, and business mentoring. These mechanisms are often complemented with investment promotion initiatives and platforms, where young entrepreneurs can pitch their business ideas directly to investors (Decent Jobs for Youth, 2017).

An exciting part of the world where experiments in development strategies are abundant is in Sub-Saharan Africa (SSA). SSA governments have been early adopters in exploring innovative financing solutions for youth unemployment. In particular, national youth funds have been implemented as a method to promote self-employment. National youth funds are defined as financial resources contributed by governments (and in some cases through public-private partnerships, with the private sector, and NGOs) through annual budgets to support the growth of

Micro, Small and Medium Enterprises (MSMEs) (Ahaibwe & Kasirye, 2015). The youth funds may be in form of loans or grants depending on the objectives for which they were set up in different countries. However, most youth funds are geared towards employment creation through support to MSME development by using financial instruments and business support services, among other tools (ILO, 2012)

The suggested strategies hold tremendous promise towards filling the current gaps in support for youth entrepreneurship, education, skills training, and access to finance. That said, we once again run into the issue of limited research and knowledge of the true impacts of these interventions. The literature on the linkages between innovative finance instruments and youth start-ups, self-employment and business expansion numbers is still nascent. Going forward, it will be necessary to study the outcomes of their implementation to determine which tools work, and which don't. Success stories will be critical for convincing stakeholders of innovative finance's replicability, which is needed for eventual scale-up. The other part of the equation is of course *where* this issue is being financed, which has important considerations on its own. The next section explores the current state of innovative finance in the MENA region.

5.6 Innovative Finance in MENA

To date, innovative finance has not had a strong presence in MENA countries overall. The mechanisms being explored by young entrepreneurs and governments in other countries have not gained similar traction, and evidence of initiatives related to innovative finance are difficult to come by. An overview of the major innovative finance solutions that have been/are being tested, are documented in this section.

5.6.1 Microfinance

Microfinance (also called microcredit) is a type of banking service that is provided to unemployed/low-income individuals or groups who otherwise have no access to financial services. Ultimately, the goal of microfinance is to give impoverished people an opportunity to become self-sufficient (Investopedia, 2018a). Regarding its effect on economic outcomes for youth, evidence suggests that the provision of loans and cash grants when combined with training, has positive impacts on entrepreneurship, individual earnings, and business sustainability among youth (Blattman et al., 2013; Schoof, 2006).

The Middle East and North Africa Transition Fund is a broad-based partnership providing grants for technical cooperation to help transition countries (Egypt, Jordan, Libya, Morocco, Tunisia and Yemen) strengthen their governance, social and economic institutions. Its main objective is to improve the lives of citizens in transition countries by supporting projects and programs in four key areas: 1) investing in sustainable growth; 2) inclusive development and job creation; 3) enhancing economic governance; and 4) competitiveness and integration. The fund itself is supported entirely by government donors, and is not considered "innovative" according to the definition used in this paper. However, the fund does support innovative projects. As of 2016, six projects related to banking and finance (including microfinance) valued at US\$18 million, and three projects related to youth employment valued at nearly US\$7 million have been implemented. These projects involve: promoting financial inclusion via mobile financial services; finance and private sector development technical assistance; microfinance development and support; and youth engagement (Middle East and North Africa Transition Fund, 2016).

However, the microfinance sector in the MENA region is still underdeveloped compared to other regions of the world. The World Bank notes that microcredit accounts for just 0.2 percent of the MENA region's GDP. Even in Morocco, which has MENA's most developed microfinance sector, microcredit loans account for just over 1 percent of total bank credit, compared with 7 percent in Latin America and the Caribbean, and 5 percent in SSA (Feuilherade, 2014). The number of microfinance institutions (MFIs) in 2008 for MENA totaled a meager 56, while the second lowest number (for SSA) totaled 195. Furthermore, outreach is highly concentrated in very few MFIs, as well as in two countries (Egypt and Morocco). In fact, the combined percentage of active borrowers and gross loan portfolios of MFIs concentrated in these two countries were 75 percent and 61 percent in 2009, respectively (Khaled, 2010).

5.6.2 Crowdfunding

In more recent years, microfinance has evolved with the advancement of technology, becoming increasingly decentralized. Microfinance can now widely be gathered online through new platforms—an approach referred to as crowdfunding. Crowdfunding is a collective effort of individuals who pool their resources to support initiatives promoted by other people or organizations (UNDP, 2018). Its key characteristic is the use of technology and social networks, which individuals and companies use to mobilize significant resources. The amount of money it has raised has grown substantially from US\$1 billion in 2011 to US\$34 billion in 2015 (Massolution, 2015). Crowdfunding emerged from innovation in technologies that made it possible for businesses, NGOs and individuals to secure funding with little to no intermediation. The market has grown notably in developed countries, partially as a response to the credit crunch resulting from the 2008 financial crisis. But thanks to the rapid expansion of the Internet and

mobile access, it has also expanded to developing countries. Several crowdfunding platforms have emerged during this time in MENA (e.g. Eureeca, Zoomaal, Alfannah). Despite its growth worldwide, the bulk of funding being raised still originates in North America. Although its potential remains strong, crowdfunding's use in MENA has not thrived. Reasons include regulatory challenges from governments who fear the use of the platform for money laundering or terrorist financing, as well as questions of sustainability and viability for MENA consumers who face higher risks in investing (Prabhu, 2017). The average potential funder in MENA is likely less willing and/or capable of risking their income on unproven ventures, not to mention less sensitized to the idea of intangible returns on investments commonly connected with crowdfunded start-ups.

5.6.3 Islamic Finance

Islamic finance refers to any banking or finance activity in accordance with Sharia, or Islamic law. Central to Islamic banking and finance is the importance of profit sharing and loss bearing as part of raising capital. Islamic law views lending with interest payments as a relationship that favors the lender, who charges interest at the expense of the borrower. Deemed *riba*, such practice is condemned under Islamic law as it is considered exploitative, unfairly enriching lenders. Alternatively, Islamic banking exists to further the socio-economic goals of Islam (Investopedia, 2018b). In this sense, Islamic finance very much fits under the innovative finance for development umbrella.

The Islamic Development Bank (IsDB) is an example of an institution participating in this innovative approach to finance. The IsDB is currently undergoing a strategic shift, with an increased focus on youth empowerment. In 2018, it announced the launch of the “Transform

Fund” to increase member access to financing for innovation. This \$500 million fund will provide seed money for innovators, startups and SMEs; and finance partnerships between researchers and entrepreneurs for projects that address challenges aligned with the Sustainable Development Goals, such as food security, education, water and sanitation, renewable energy, and infrastructure (Roby, 2018).

The Transform Fund as well as other financial instruments like it based on Islamic principles, carry a multitude of benefits for youth and financiers alike. For example, seed capital based on Islamic microfinance principles can enable youth to start their own businesses and create jobs. In contrast to conventional microfinance, Islamic microfinance provides an interest-free alternative that offers greater resilience. This applies to Islamic banking in general as well. For example, the requirement to abstain from interest made Islamic financing activities more tied to real economy and also required them to avoid exposure to the dangerous financial derivatives in the lead up to the financial crisis. Additionally, while any return on capital in the form of interest is prohibited in Islam, getting a return on capital is permitted if a lender enters a partnership with an entrepreneur and is prepared to share in the risks of the business. The prospects of Islamic finance as a tool to address social problems such as youth unemployment are enhanced in the Islamic countries of MENA. Studies find that the Islamic banking sector has been growing in the region, with Bahrain at its centre. As discussed, microfinance can be a powerful tool for unemployed youth, capable of raising living standards, creating jobs, boosting demand for other goods and services, contributing to economic growth, and ultimately alleviating poverty. The added dimension of Islamic philosophy is intriguing in that it could play an important role in growing innovative finance in MENA as it caters to the financial needs of its people in harmony with their social and religious values (Ali, 2012).

5.6.4 Impact Investing

Impact investments are investments in companies, organizations or funds which aim to achieve a measurable social or environmental impact, alongside a financial return (Mudaliar et al., 2017). The Global Impact Investing Network (GIIN) estimates a market of approximately US\$114 billion in impact investing assets, of which US\$22.1 billion was committed in 2016. Expected growth in 2017 is over 25 percent. Sixty percent of impact investors (respondents to GIIN surveys) report their investments are aligned to the SDGs. Many large companies have also created or expanded corporate social responsibility programmes with a key focus on international development.

The power of impact investing resides in its potential to unlock significant amounts of private capital and its promise to bring together various stakeholders. Despite its growing popularity, impact investing is still very much an industry in its infancy. To put its market size in perspective, recent estimates that value impact investing assets at approximately US\$114 billion, pale in comparison to the US\$62 trillion financial assets managed globally or the US\$3.5 trillion managed by private equity firms.

There is substantial room for impact investing to grow; this is especially the case for the MENA region, which is still significantly under-represented when it comes to attracting impact investments compared to SSA, Latin America, and South Asia. The 2014 J.P. Morgan/GIIN survey of 125 leading impact investors provided detailed insight into asset allocation trends across regions, sectors, and financial instruments. The report found that while 80 per cent of respondents were based in either the United States and Canada or Europe, 70 per cent of the capital was invested in emerging markets. The three main investment destinations for this sample

were Northern America (22 percent), Latin America (19 percent), and SSA (15 percent). MENA attracted a lowly 2 percent of the capital (J.P. Morgan & GIIN, 2014).

El Idrissi makes the case that the relatively low level of impact investments in MENA are a consequence of the region's still premature investment climate and institutions. Investment opportunities are still limited and the main conduits through which impact investments developed in other regions—such as development finance institutions (DFIs), the venture capital industry, fund managers, and microfinance institutions—are largely underdeveloped (Idrissi, 2015). As a result, there are few viable ventures for impact investments as well as limited exposure to the idea of symbiotic investments, which has played a part in the skepticism of investors.

Overall, there has been minimal use of innovative finance for youth employment programmes in MENA. The newer, more complex instruments are still largely untested for employment related projects in the MENA context and are unlikely to garner necessary support from investors. For this to happen, what's needed is further experimentation and demonstration of a return on investment for investing in youth employment.

6. Lessons Learned

The causes of MENA's high youth unemployment can be traced to a myriad of policy mishaps, deeply rooted traditions, and geo-politics. Thus, a multi-faceted approach must be taken when trying to find solutions to the problem. Fostering entrepreneurship by way of improving access to financial services for youth is one important piece of the puzzle. When it comes to the application of innovative financing to support youth entrepreneurship, the same tools exhibiting early success in other regions have not had the same impact in MENA. The reasons why are

highly dependent on the instruments themselves. These are touched upon in the previous section. Despite being in its infancy, innovative finance is undoubtedly a viable mechanism in the region that should be further developed. The positive outcomes achieved with innovative financing instruments in other sectors are encouraging and provide valuable insights for the youth employment crisis in MENA. Going forward, there are several key lessons to take away from this paper:

- More studies need to be done to understand the impact that different innovative financing instruments have on encouraging entrepreneurship, increasing access to finance, and ultimately creating jobs for youth. That being said, the ingredients necessary for its success are widespread in MENA; youth are plentiful, educated, entrepreneurial, motivated, and capable. It's in the best interest of the region's governments to support their youth through growing innovative finance to realize a demographic dividend, maximize investments in human capital, and deliver on inclusive economic growth.
- Innovative finance can play an important role in amassing resources to provide business loans for young entrepreneurs, but must also focus on funding relevant skills development. Appropriate skills development, particularly in the areas of vocational training, entrepreneurship skills and technical skills, helps equip young women and men with the skills that they need to pursue entrepreneurial activities. Greater success rates are achieved when entrepreneurship activities provide access to finance in combination with training and advisory support. This, in turn, is connected to greater job creation for youth.
- Information and communication technologies (ICTs) are becoming an increasingly necessary part of doing business and are also transforming the capabilities and reach of innovative financing instruments. Its use can support young women and men in realizing entrepreneurial

opportunities by enabling young people to acquire necessary finances, digital literacy skills, and access to markets. Networks and peer-to-peer support play a crucial role in facilitating the start-up, development and growth of enterprises. The use of ICTs to facilitate this will only grow in importance.

- Traditional FSPs are still important players in MENA's financial markets, although they must adapt. FSPs require the means to develop affordable, responsible and accessible financial services, tailored to the financing needs of young women and men. This involves implementing inclusive measures to create equal opportunities for disadvantaged groups of young people to access the financial services of these providers. The growth of innovative finance could help push these progressive measures forward.
- Innovative finance and its instruments are not a panacea, and are likely not sufficient for solving the issue of youth unemployment. From the array of literature reviewed for this paper, there is a consensus that every intervention, whether it's finance, education, or social behavior, must be part of a grander development vision that considers the roles of the public, private, and civil sectors. What we can be sure of is that exploring and progressing innovative finance in MENA offers an opportunity to access vast untapped potential that can contribute to tackling some of the region's most pressing needs through innovative, market-based approaches. There is no reason to believe that these mechanisms cannot be applied to the issue of youth unemployment. Nonetheless, its impact will be limited if other factors—such as political instability or corruption—cause youth to migrate elsewhere or undermine business climates.
- Finally, governments in MENA have perhaps the most influential role to play in addressing high youth unemployment. The literature on financing for development agrees that

governments can act as enablers, putting in place the incentives and regulations that can steer private investment and behaviours that yield sustainable development returns. For example, loosening employment regulations on hiring and firing employees is one suggested way of encouraging employers to hire youth that governments can swiftly bring about.

7. Conclusion

The high levels of youth unemployment seen in the MENA region do not show signs of abating anytime soon. As this paper has discussed, numerous factors have contributed to the problem and are still affecting countries in MENA today. These include the allure of non-productive public sector jobs for new job-seekers, the insufficient supply of jobs, weak private sector development, and education/skills mismatches. Governments are taking corrective actions as part of their national inclusive growth strategies, but the history of state centrism and its inefficiencies runs deep. Nevertheless, the resolution of this crisis depends on governments who play a critical role in enabling a dynamic job market for youth. Promoting youth entrepreneurship together with proper skills training is one proven method that can lead to positive youth employment outcomes. Innovative financing's utility is in improving access to financial services for young entrepreneurs, which is one of the biggest challenges they face when starting new business ventures.

Although innovative finance tools have not been widely applied to youth employment initiatives thus far, there is reason to be optimistic about its growth, particularly in MENA. These tools have shown success in other sectors, and there's no reason to doubt its applicability to the domain of youth entrepreneurship, financial inclusion, and employment. Moreover, MENA's youth population is more capable and ready than ever to bring about economic and social change

through new enterprises. Innovative finance's bottom line focus on social impact is the key that can help unlock this potential, and correct for the failures of the traditional financial sector. Innovative finance is only one piece of the greater puzzle of solving youth unemployment in MENA and for it to be successful, it will have to grow in conjunction with a wide range of actions fostering political stability, business environments, quality of education, and strength of institutions.

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Appendix

Box 1. Inclusive Growth Strategies in MENA countries

Afghanistan	The Afghanistan National Peace and Development Framework, issued in 2016, aims to build a broad-based and inclusive growth and to create jobs. It emphasizes policies to improve the rule of Law and address corruption.
Algeria	In 2016, the authorities adopted a broad strategy to move towards a private sector-led growth model and reduce the dependence on hydrocarbons. The action plan of the newly appointed government calls for pursuing reforms to improve economic governance and improve transparency. The government will launch wide-ranging consultations to push forward subsidy reforms and gradually adopt a social transfer policy.
Bahrain	The Bahrain Labor Fund and Development Bank supported SMEs through business management support and subsidized loans. Bahrain's Vision 2030 promotes the role of the private sector and further diversify the economy.
Djibouti	Vision 2035 is an ambitious plan to make the country a middle-income economy within the next 20 years by raising medium-term growth, making it more inclusive and reducing unemployment.
Egypt	Vision 2030 has inclusive growth objectives including reducing poverty, increasing women labor force participation, reducing the gender gap and improving the business environment.
Iran	The Sixth National Development Plan aims to develop private sector and reduce oil dependency. As part of this plan, the authorities have also set specific goals in terms of better integrating women in the labor force.
Jordan	Vision 2025, a ten-year framework for economic and social policies, which aims at advancing fiscal consolidation and broad structural reforms to enhance the conditions for more inclusive growth.
Kuwait	The government's 6-pillar reform strategy aims at underpinning gradual fiscal consolidation and at boosting private sector growth and fostering economic diversification, including through PPPs, privatizations and labor market and business climate reforms. The authorities also established an SME financing fund to tackle the SME financing problem.
Mauritania	The first pillar of the "Strategy for Accelerated Growth and Shared Prosperity 2016-30" is to promote higher, sustainable and more inclusive growth and higher job creation.
Morocco	The authorities have different plans to address IG issues including the National Strategy for Employment 2015-25, the Vision for Education 2015-30, and the National Anti-Corruption Strategy.
Oman	The 9th five-year development plan (2016-20) targets to create productive job opportunities for Omani nationals and improve their capabilities and skills through economic diversification including by investing in infrastructure, enhancing the role of the private sector and encouraging entrepreneurship and SMEs.
Pakistan	Pakistan Vision 2025, the National Financial Inclusion Strategy 2015, and the National Doing Business Reform Strategy 2016 are targeting different aspects of inclusive growth challenges.
Qatar	The Ministry of Development Planning and Statistics is currently developing its Second National Development Strategy 2017-22, with a focus on improving the quality of education, fiscal management, and the institutional framework for the conduct of fiscal policy to create room for private sector's participation in the economy. This complements Qatar's National Vision 2030, launched in 2008, to "transform Qatar into an advanced economy capable of achieving sustainable development by 2030."
Saudi Arabia	The Vision 2030 strategy and National Transformation Program (NTP) envisages an ambitious economic diversification, and job creation for its young population. It also aims to enable a greater role for the private sector, increase female labor force participation, home ownership, and transform Saudi Arabia into a trade and financial hub.
Somalia	The authorities' National Development Plan outlines their medium and long-term development strategy including reforms to social safety nets, youth and women's participation, private sector development, and access to finance.
Tunisia	The authorities' five-year economic vision 2016-2020 aims to promote stronger and more inclusive growth.
UAE	Vision 2021 aims to achieve a more diversified and a knowledge-driven economy.
West Bank and Gaza	The 2017-22 National Policy Agenda fosters social justice, education and health care, and building resilient communities.

Source: IMF country teams